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February 10, 2006

## **AGENDA ITEM 7**

**TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE**

- I. SUBJECT:** Introduction of Executive Compensation Consultant and Discussion of Biennial Salary Survey
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** This is an information item.
- IV. ANALYSIS:**

At its December meeting, the Board selected the firm of Watson Wyatt Worldwide to provide executive compensation consulting services. Watson Wyatt will be conducting the 2006 Biennial Salary Survey and will be available to provide ongoing consultation to the Performance and Compensation Committee and the Board on issues that may arise relating to the structure and administration of the executive compensation program.

### Background

In 1996, the Board retained the firm of Watson Wyatt Worldwide to recommend compensation policies and procedures, along with specific incentive programs designed to recruit and retain skilled executives in key positions in existence at that time. The program has been expanded to include investment positions that were established subsequently, and the policies and procedures have been revised to incorporate various enhancements.

From the inception of the compensation program, the Committee has been guided by an emphasis upon pay for performance and reviewing compensation as a natural and necessary part of the process. The program initially required salary surveys to be conducted every three years to determine the prevailing compensation for the Chief Executive Officer position in other public pension funds and for comparable investment and actuarial positions in private sector insurance and banking industries, the primary recruitment source for such

positions. In 2001, the policies were amended to increase the frequency of the salary surveys from every three years to every two years (biennially).

#### The Survey Process

It is time to begin the activities for the 2006 Biennial Salary Survey. Watson Wyatt will be asked to gather compensation data and make recommendations for the following positions:

- Chief Executive Officer
- Chief Actuary
- Chief Investment Officer
- Senior Investment Officers
- Senior Portfolio Managers
- Portfolio Managers

For the Chief Executive Officer, data is gathered from the ten largest public pension funds in the United States, and as a secondary source, the five largest California local public pension funds.

For the Chief Actuary and investment management positions, Watson Wyatt has access to numerous surveys and sources of private sector data from which to draw. As outlined in the *Services to be Provided* section of the RFP, private sector salary survey data relative to investment management positions shall be a representative reflection of practices in banking, insurance, and asset management firms, as well as comparable public pension funds. The data will be collected during February and March and will be presented to the Committee in April or May.

Mr. Rick Beal, Watson Wyatt's Managing Consultant for Northern California, will be in attendance at the Committee's February meeting. He will be available for any questions about the Biennial Salary Survey, the sources of the data, or how it is analyzed and interpreted for presentation to the Committee.

Mr. Beal will also discuss current compensation trends in the marketplace, including disclosure, pay philosophy, incentive design and general recruiting and retention practices.

#### **V. STRATEGIC PLAN:**

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key management personnel.

**VI. RESULTS/COSTS:**

The management of a competitive compensation program is critical for the attraction and retention of key executives at the highest levels of the organization. This in turn is essential to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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